

Moderator's Guide—Consumer

Greet participant and thank him or her for coming. Ask participant to take a seat and if he or she had any trouble finding the site or if he or she has been there before.

Introduction of Moderator and Notetaker (5 minutes)

Welcome, and thank you for coming today. My name is _____ and this is _____. We are from the Kleimann Communication Group, a design and research firm in Washington, DC. Before we get started, I want you to know that I will be reading from a script. We are talking with a number of people this week, and we want to be sure we say the same things in the same way to everyone.

The material we are testing today is part of a consumer study about the closing disclosure you receive when you are closing on a loan to buy or refinance a home. The study is being conducted by the Consumer Financial Protection Bureau, a government agency that is also known as the CFPB.



Note to Moderator: Hand participant piece of paper with the CFPB website address:

<http://www.consumerfinance.gov/knowbeforeyouowe/>

Representatives from the CFPB are observing today. They are very interested in hearing your thoughts. Let me know at the end of the session if you would like to meet them.

The CFPB is working to create a closing disclosure that will help consumers understand their loan terms and costs when they close on a loan to purchase a home or refinance an existing loan. What you say to us today will help us do that.

I will be leading today's session and _____ will be taking notes to help us remember what you say. We will be audio- and /or video- taping this session, based on what you agreed to, to ensure that we collect complete information. The entire session will take no more than 90 minutes, and we will take a

break about half way through the session. The questions we will be asking have been approved by the Office of Management and Budget and have been assigned OMB Control Number 3170-0003. Any questions so far?

Privacy

I have a few questions to ask you about the paperwork you filled out when you arrived. Can you please answer either yes or no to each of the questions that I will ask you? (If participant nods or shakes head, ask him or her to say the answer out loud for our tape)

- Did you fill out a questionnaire when you arrived today?
- Were you given consent forms to participate in this session and for us to audiotape and videotape your session today?
- Did you read and sign those forms?
- Did you give permission for both audiotape and videotape? (If did not give permission for video, say, "One of my colleagues in back will make sure that the video is off. ")

NOTE TO MODERATOR: Do not proceed with the session unless the participant answers "yes" to each of the first three questions. (Participant must agree to audio but video is optional). Do you have any questions?

All of the information we collect today will be kept private to the extent permitted by law, and we will not identify you by name when we compile our results. In addition, we will not use your full name, address, or any other personal identifying information other than your image in reports, papers, or videos based on this research. I want to remind you that you may end the interview at any time.

About the Session

Over the next 90 minutes, I am going to ask you to do a couple of things and to respond to a series of questions. As I go through these questions, and you give me your responses, please remember there are no right or wrong answers. We aren't testing you—even if at times it may feel like we are. We're testing the disclosure and any information you give us is good information.

We want to learn from you what works best for consumers to help them understand mortgage loan closing disclosures and if these disclosures give you the information you need to understand the transaction of purchasing a home or refinancing your mortgage loan.

Introduction to Think-Aloud Technique (5 minutes)

One of the best ways to learn about a disclosure is by watching someone interact with it for the very first time. Once I give you the disclosure, I'm going to ask you to talk **out loud** about what you are thinking as you read it. You might be reading out loud and thinking, "Wow! This is great!" or "I don't like this!", say those things out loud. Or maybe you think "What does this word mean?" Say it out loud. We want to hear that inner voice in your head that comments on things you read. Talking out loud is the only way we can hear what you are thinking and how you are reacting. This may seem a little odd, but we really want to hear everything that you are thinking as you interact with these disclosures for the first time, so we can improve it further.



Note to Moderator: If needed

To learn from you, it is important that you:

- **Tell us out loud where you are in the disclosures.**
- **Tell us what you are reading, skimming, skipping in the disclosures.**
- **Tell us any questions, suggestions, or confusion that you might have about any part of the disclosures.**

Talking out loud is very important because our notetaker will be recording what you say as you go through the disclosure. What you are thinking is more important than what you are reading.

I know this technique of thinking aloud might seem unusual. So, I'd like to let you practice. I'm going to give you a menu from a restaurant and I'd like you to "think aloud" and tell me how you would go through this menu and decide what you'd want to eat. Again, I want to hear what you are thinking, reading, skimming, skipping, how you react to the menu, and how you go about making a decision. Any questions?



Note to Moderator: Hand participant Menu.

Now, here is the menu. Remember, that you are reading to decide what to order. To get you started, what is the first thing you see or notice?



Note to Moderator:

- Give the participant the menu and get him or her comfortable with talking about what he or she is looking at or reading, and with voicing questions, confusion, and decisions.
- Coach the participant to use the technique. Be sure that he or she has looked at and commented on the following:
 1. the appearance—color, font, layout
 2. symbols and graphic elements, such as pictures or symbols
 3. details, such as why some items have descriptions and others don't
 4. order in which he or she reads the information
- Ask the participant what he or she is reading, where he or she is looking, and when a decision can be made. The task should take no more than 5 minutes.
- **Important:** This task sets the stage for how well the participant will “talk aloud” in Task One.

Great! You understand exactly what we are looking for.

Introduction to Condition 1

Next, I am going to show you some information about the home buying process to help us with our next tasks. Homebuyers go through a number of steps when they begin the home buying process. **Let's take a look at this visual. For the next task, we are going to assume you are HERE in the process.** (Show they are at #5 in Column 2 of Process.) You have

- found a house that you are interested in,
- contacted a mortgage broker about borrowing the money to purchase the home, and

- have asked the broker to give you a write up of the loan terms you've talked about and agreed on.

The broker gives you this document, which is called the Loan Estimate. I am going to run through the disclosure with you as if I were your broker and we were reviewing the basics together.

Loan Estimate Script Draft (5 minutes)

[We will discuss the loan estimate after we show them a visual of where they are in the overall home buying process. We will show the visual again before we show them the closing disclosure.]

Let's start on page 1. Up here (Top Info and Loan Terms) we have the broker's information as well as your basic information, name, and the property address. You are interested in a 30 year fixed loan, which means the interest rate will not adjust. It is a conventional loan meaning that it is not insured by and subject to the requirements of a government program.

Moving to the **Loan Terms** section-you are planning on buying a home that costs \$123,500 and are planning on putting 15% down, which is \$18,525. So, you are looking to borrow or finance \$104,975.00. You already paid the seller a \$3,000 deposit. Additionally, the interest rate is 4.375% and your monthly principal and interest amount is \$524.13. This loan has no prepayment penalty, which means you can pay it off or refinance without paying a penalty. It also has no balloon payment, which means there is no large amount due during or at the end of the loan term.

Going on to the **Projected Payments** section, here we have broken down your payment amount for you over the life of the loan, 30 years. The first line shows the principal and interest amount of \$524.13. Because you are not putting down 20%, your loan will have mortgage insurance in your payment. The mortgage insurance amount is \$32.00. As it stands now, mortgage insurance will eventually go away after Year 7, because you'll have more equity in the home. This loan has an escrow account, which means that the bank will make your payments for the taxes and insurance when they are due. Your estimated taxes and insurance for property taxes and homeowner's insurance are \$301.00. This brings your total monthly payment to \$857.00.

Now, let's move to the **Closing Costs** section. The estimated amount of cash you will need to bring to closing is \$25,101.00, which includes the fees and costs for obtaining the loan as well as your down payment. Specifically, this amount includes \$5,170.00 in estimated Settlement Fees.

Page 2 helps you to see what our estimates are for the specific fees and costs that make up your closing costs.

Calculating Settlement Fees lists out the fees for getting this loan, including our Origination Charges. You can see here you're paying almost one 1 point, .875, to lower your interest rate.

- In Services you cannot shop for, we have listed our estimates for costs that you have to pay and that we will find the vendors for.
- In Services you can shop for, we've listed the items that you can choose to shop for. You can shop for all, some, or none of these. If you use the vendors we've identified, these are the estimates for costs.
- The Calculation section lists your total Estimated Settlement Fees.
- This Limits on Increases section tells you that some of these fees cannot change and some cannot change more than 10%.

Calculating Settlement Costs lists the other payments you will need to pay for the loan and the house.

- Taxes and Other Government Fees are standard and determined by the government.
- The Prepays section includes the Homeowner's Insurance you can choose to have and the Prepaid Interest you have to pay if we close on January 31.
- The Initial Escrow Payment at Closing of \$902 is a deposit you make into your escrow account.
- The Other Costs shows the Real Estate Broker Administration Fee of \$200.

Here is the **Calculation** for your Cash to Close. This includes the sum of these two columns. It also shows what your down payment is and the deposit you've already paid the seller. This is a purchase, so you're not getting any cash out and you are not doing any of the rest of these things. So here is the total for your Estimated Cash to Close.

On page 3, this section (**Comparisons**) provides some additional measures to see if this loan is a good fit for you.

- The In 5 Years section shows you how much of your payments will have gone to paying off the principal amount of your loan.
- Your APR expresses your costs over the loan term.
- The TIP is the total amount of interest that you will pay over the loan term.

In this section (**Other Considerations**), we provide some other information about the loan. For instance, if you make a payment that is more than 15 days late, we will charge a late fee.

Okay, now that we've gone through the disclosure, we ask that you sign it to confirm you have received this disclosure. Would you go ahead and sign the form?

Do you have any questions? You may take a minute to review it if you would like.

Introduction to Condition 2

Next, I am going to show you some information about the home buying process to help us with our next tasks. Homebuyers go through a number of steps when they begin the home buying process. **Let's take a look at this visual. We are going to assume you are HERE in the process.** You have:

- found a house that you are interested in,
- contacted a mortgage broker about borrowing the money to purchase the home,
- have asked the broker to give you a write up of the loan terms you've talked about and agreed on.
- selected a loan. (Show they are at #5 in Column 3 of Process)

Task One: Settlement Disclosure Think Aloud (35 minutes)

We are going to assume you chose a loan and are getting ready to close on your home and loan. When you close on the loan, one of the many documents you receive is a Settlement Disclosure. The disclosure lists all of the costs associated with the loan and tells you how much money you will need to bring to closing.

Condition 1: It is very similar to the Loan Estimate disclosure but instead of an estimate, this provides your actual final costs. **Let's look back at the home buying process visual. According to the process, you are now here.** (Show they are at #5 in Column 3 of Process)

You are closing tomorrow and you received the final Settlement Disclosure for you to review. Your broker suggested that you compare the Loan Estimate disclosure (the one I went over with you as if I were your broker) to the Settlement Disclosure to verify it is accurate and to see if you have any questions. The scenario is the same as we talked about initially.

Condition 2: You are closing tomorrow and you received the final Settlement Disclosure for you to review. Here is the basic scenario.



Note to Moderator: Hand participant *Scenario Card* and read out loud.

You are going to closing tomorrow to finalize the purchase of house that costs \$123,500. You are making a down payment of 15% or \$18,525, of which \$3,000 you've already given to the seller as a deposit. You planned to borrow \$104,975 but then you decided to finance some of your closing costs.

FIXED Scenario:

You applied for a 30 year fixed rate loan, and now plan to borrow \$109,805.63.

You received an estimate of the cash needed to close for \$25,101 from the bank when you applied for the loan.

Cost of home: \$123,500

**Down payment: \$18525 (15% down) but already gave \$3,000 deposit to seller
Amount borrowed: \$109,805.63**

Estimated Cash to Close (at application): \$25,101

Your task is to determine if you would accept the terms and costs and if you would have any questions.

When I hand you the disclosure, I want to hear what you are noticing and thinking about as you look through them as well as your thoughts, questions, and ideas about the Settlement Disclosure. Tell me what is clear about what you see and what is confusing so we can improve the disclosures. Remember we want to hear your thoughts—both positive and negative—so we can make sure consumers have clear information about the loan terms and costs before closing.

Please go through the disclosures exactly as you would if you received this from the broker the day before closing. As you go through them, please speak aloud so I can hear what you are thinking just as we did with the menu. Remember this is a test of the disclosures, not a test of you.

Do you have any questions before we get started?

Okay, one question to ask you before you get started:

1. What information would you be looking to verify?



Note to Moderator: Hand participant closing mortgage loan disclosure.

Condition 1: Okay, here is the final Settlement Disclosure. Remember you can look back at the Loan Estimate disclosure as much as you want. To help get you started, what is the first thing you notice?

Condition 2: Okay, here is the final Settlement Disclosure. To help get you started, what is the first thing you notice?



Note to Moderator:

- **Allow participant time to review the disclosure and comment on it.**
- **Ask participant to put disclosure on table.**
- **State aloud whenever the participant moves to another section or page.**
- **Ask participant what he or she is looking at.**
- **If participant looks confused, ask “is there something that is confusing there?”**
- **Remind the participant to tell you what he or she is thinking, what he or she likes and dislikes, and what he or she understands and doesn’t understand.**

During Think Aloud:

As participant gets to the end of page 1:

1. What are you thinking at this point in the process?
2. What would you do next based on what you’ve seen?
3. What information are you looking for next?
4. Is there anything that is confusing to you or that you would have questions about?

As participant gets to the end of page 2:

5. What are you thinking at this point in the process?
6. What would you do next based on what you’ve seen?
7. What information are you looking for next?
8. Is there anything that is confusing to you or that you would have questions about?

As participant gets to the end of page 3:

9. What are you thinking at this point in the process?
10. What would you do next based on what you’ve seen?
11. What information are you looking for next?
12. Is there anything that is confusing to you or that you would have questions about?

When the participant seems to be finished with think aloud, ask the participant:

1. Now that you have received and reviewed the disclosure(s), what would you do next? (Does participant notice the violation?)

2. What questions might you have for the broker?
3. Initially you said you would be looking to verify "X,X,X." Were you able to verify all of the information you wanted to?
4. **For Condition 1**, on the Loan Estimate, you will notice that the purchase price of the home is not included. Would it be important to you to have the purchase price on the Loan Estimate? Why?

Now, I have a number of questions to ask you about the Settlement Disclosure. Remember you can look back as much as you want to answer any of these questions.

5. Do you have an escrow account with this loan? Where do you see escrow information?
6. If so, what items are being covered by your escrow account?
7. How much are you putting into your escrow account each month?
8. **Design 1**, you will notice on page 1 that the estimated escrow is 422.94, but in the Estimated Taxes, Insurance & Assessments the amount listed is 551.25 a month. Can you tell me why the estimated escrow and the escrow amount listed below it is different? (*Not everything is included in escrow. If they look at page 4, they might be able to see that HOA is not included in any of the estimates.*)
9. What is included in the escrow amount listed? Where did you get that information?
10. What is the amount of closing costs you (the borrower) financed?
11. Did any of the changes to the Loan Estimate exceed the legal limits on changes? (YES)
12. What would you do about the section that tells you that the costs are over the limit?
13. How much was the estimated cash to close?
14. What was the final cash to close?
15. What accounts for the difference? Where did you get that information?
16. **For Condition 2**. I am going to show you a copy of the Loan Estimate. You would normally receive this from the broker when you are shopping around for loans. Go ahead and take a look at it and try to use it to compare to the Settlement Disclosure. Talk to me out loud as you are going through that. I am interested in if it seems easy or difficult to compare the two.
17. **For Condition 2**. Do you have any suggestions for changes to the Loan Estimate or Settlement Disclosure after looking through that?

18. **For Condition 2.** On the Loan Estimate, you will notice that the purchase price of the home is not included. Would it be important to you to have the purchase price on the Loan Estimate? Why?



We're more than half way finished. Let's go ahead and take a short break for you and so I can set up for the next part. You can go get a drink, or use the restroom and I will come get you from the waiting room in just a few minutes.

Break (5 minutes)

Task Two: Design 2 Think Aloud (20 minutes)

Thank you for working through those disclosures. Now, I'm going to show you a slightly different format of the final settlement disclosure. This disclosure has the same basic information and numbers as the one you just reviewed, only the format is different. Let me give you a few minutes to look it over. You may look back at the first format as well.

Give the participant time to read and then ask:

1. Now that you have received and reviewed the disclosure(s), what would you do next? (Does participant notice the violation?)
2. What questions might you have for the broker?
3. Initially you said you would be looking to verify "X,X,X." Were you able to verify all of the information you wanted to?
4. Which format do you think is easier to compare with the Loan Estimate? Why?
5. **Design 1**, you will notice on page 1 that the estimated escrow is 422.94, but in the Estimated Taxes, Insurance & Assessments the amount listed is 551.25 a month. Can you tell me why the estimated escrow and the escrow amount listed below it is different? (*Not everything is included in escrow. If they look at page 4, they might be able to see that HOA is not included in any of the estimates.*).

6. Design 1 has the “What Changed” and “Summary of Transactions” on page 2, followed by the “Closing Cost Details” on page 3. Design 2 has the “Closing Cost Detail” on page 2, followed by the “What Changed “ and “Summary of Transactions” on page 3. Which order do you prefer? Why?
7. Let’s look at the “What Changed” tables. Design 1 has an expanded detail of the cash to close. The letters match the loan estimate. Design 2 is a condensed version. Which do you prefer? Why?
8. In the “Summaries of Transactions” section at the bottom of the page, Design 1 has 3 lines with Cash to Close and the total as the first of three lines and then the detail. Design 2 has 4 lines with Calculations as the title, then the details, then a total. Which do you prefer? Why?
9. Now, let’s look at the Closing Cost Details page. Design 1 has shaded columns, Design 2 does not. Which do you prefer? Why?
10. In Design 1, the rows are numbered, in Design 2 they are not. Which do you prefer? Why?
11. On page 4, in the Escrow Account Information, Design 1 uses a combination of table and text format for the escrow information. Design 2 uses a straight text format. Which do you prefer? Why?
12. On page 5, let’s look at the Question box. Design 1 uses an icon and a rounded box, Design 2 uses a square box. Which do you prefer and why?
13. Which overall format do you prefer? Why?

Task Three: Part 3 Federal Disclosures Think Aloud (19 minutes)

Now I would like to focus on the last two pages of the settlement disclosure.



Note to Moderator: Remind participant about the *Scenario Card* and read out loud.

When participant seems finished ask:

1. What is this lender's partial payment policy? What is a "partial payment"? Where did you find that information?
2. Does this disclosure tell you anything about what happens if your lender foreclosed on you? Where did you find that information?
3. According to this form, can you try to refinance this loan in the future? (*page 5*)
4. Looking at the "Loan Disclosures" section, you will see that a number of items are in that section, including "Assumption," through "Security Interest," please highlight the sections that are MOST important to you. Why are they important?
5. Let's look at the "Loan Calculations" section, what is this section trying to tell you?
6. What is the Total Interest Percentage? Is this information useful to you? Why?
7. What is the **Design 1**-Average Cost of Funds (ACF) **Design 2**-Lender Cost of Funds? Is this information useful to you? Why?
8. Show alternate Design for ACF and LCF. Which wording do you prefer? Is the information useful to you? Why?
9. Please highlight the items in the "Loan Calculations" section that are MOST important to you. Why are they important? Which items in this section are the least useful to you?
10. In the "Other Disclosures" information, please highlight the items in that section that are MOST

important to you. Why are they important?

11. Do you have a preference for the two Questions section designs? Why?
12. Does the Contact Information table have the basic information that you would need?
13. Looking in the In the Confirm Receipt section, would you sign this form?
14. What does it mean if you sign this form?
15. What do you think would happen if you sign this form and then chose not to close on the loan?
16. Is there any information on these pages that you think could be deleted?
17. Now, let me give you all of Design 1, so you can see what the entire closing disclosure will look like. On a scale of 1 to 5, with 1 being the worst design you've ever seen, and 5 being the best design you've ever seen, how would you rate the Design 1? Can you explain why you gave it this rating?
18. What would we have to change on this disclosure to make you rate it higher?
19. Now, let me give you all of Design 2, so you can see what the entire closing disclosure will look like. On a scale of 1 to 5, with 1 being the worst design you've ever seen, and 5 being the best design you've ever seen, how would you rate the Design 2? Can you explain why you gave it this rating?
20. What would we have to change on this disclosure to make you rate it higher?
21. One last question, I have some potential names for this disclosure to show you. Can you tell me which of these you prefer? What are your top three choices? (The old GFE will likely be called the "Loan Estimate")

Closing Remarks (1 minute)

Thanks so much for sharing your thoughts and impressions with us today. Your feedback and suggestions have been very helpful.

Do you have any questions I can try to answer?

Do you have any questions for or are you interested in meeting the observers?

Thanks again for coming in today, you can head back to the front desk to collect your payment.